



## **CLIENT ADVISORY ON THE NEW GIC OPTION**

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As promised in our **GIC Update** of May 22, 2007, this is to provide further information on the local option to join the GIC. As you undoubtedly know, the biggest news on this topic since our last update is that the so-called Municipal Group Insurance Law, Chapter 67 of the Acts of 2007, was signed into law and became effective on July 25, 2007. Considerable publicity surrounded the enactment of this law, much of it suggesting that every municipality in the Commonwealth should consider exercising this new local option to join the GIC.

As would be the case with any new option in the area of health insurance, we certainly agree that the GIC option warrants detailed examination specific to each municipality's unique situation. Obviously, this Advisory is not the appropriate vehicle for such a community-specific analysis of the GIC option. We will be working with each of our municipal clients to accomplish such a specific, detailed analysis. In the meantime, though, this Advisory is intended to address the issues that all municipalities should consider in evaluating the GIC option. Above all, we would caution against a rush to judgment on this option of joining the GIC.

### **I. BACKGROUND**

#### **A. What is the GIC?**

The Group Insurance Commission (GIC) is a quasi-independent State Agency established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees and their dependents and survivors. The GIC now covers over 286,000 State employees and retirees, City of Springfield enrollees, and their dependents. While the GIC puts its health benefits out to bid, the GIC ultimately controls the design of its plans. The GIC presently offers nine plan options through a number of carriers. No Blue Cross Blue Shield plan is offered currently.

The GIC is governed by an eleven-member Commission appointed by the Governor. The new law provides for the addition to this Commission of one municipal management representative and one teachers' union representative from lists of three such candidates provided to the Governor by the Massachusetts Municipal Association (MMA) and by the teachers' union.

with the most GIC subscribers, respectively. Once 45,000 municipal subscribers have been transferred to GIC coverage, an additional municipal management representative and a public safety representative shall be appointed to the GIC by the Governor from lists supplied, respectively, by the MMA and the president of the Massachusetts Chapter of the AFL-CIO.

### **B. What was the Impetus for the New Law?**

As you all know only too well, health insurance premiums have been increasing at unsustainable levels. Through its size, and especially through its careful control of plan design features, the GIC premium increases have totaled a comparatively low 61% over the last six years. The prospect of more moderate premium increases was the motivation for the establishment of this new local option, especially for communities that have adverse claims experience or that have been unable or unwilling to make their health plan offerings more contemporary and responsive to the market. As is discussed further below, though, not all municipalities would experience savings by switching to the GIC.

## **II. WHAT IS THE PROCESS FOR JOINING THE GIC?**

Ignoring for the moment the critical issue of whether joining the GIC makes financial sense for a given municipal entity, the process for and other implications of joining the GIC warrant careful attention in weighing this new option. In broad terms, the Legislature created this new local option to join the GIC through amendments to M.G.L. Ch. 32B, Section 19, the **coalition bargaining** section of the municipal contributory insurance law. The process for joining the GIC under this new law involves essentially these three steps, each of which will be addressed in greater detail:

1. Acceptance of the amended Coalition Bargaining Statute;
2. Adoption of a written agreement between the “appropriate public authority” and the “public employee committee”, and;
3. Transfer of subscribers to the GIC.

### **A. Acceptance of the Statute**

If a municipal entity wishes to join the GIC under this new statutory option, it would first have to accept M.G.L. Ch. 32B, §19. This section may be accepted in a town by vote of its Board of Selectmen, in a city by majority vote of its City Council with approval of the Manager (in a Plan D or Plan E charter city) or approval of the Mayor (in any other city), in a regional school district by vote of its Regional District School Committee, and in other districts by vote of the registered voters of the district at a district meeting. Such acceptance of this statutory section is not effective, however, until the next step, negotiation of a written agreement, is also accomplished.

### **B. Adoption of a Written Agreement**

To put a vote to accept Section 19 into effect, the “appropriate public authority” (“APA”) and the “public employee committee” (“PEC”) must reach an agreement containing certain necessary elements and some optional provisions. Under M.G.L. Ch. 32B, §2(a), the APA is the Board of Selectmen in a town, the Mayor in a city, and the “governing board” of a district. The PEC under Section 19 consists of a representative of each of the municipal entity’s collective bargaining units plus a retiree member designated by the Retired State, County and Municipal Employees Association. The retiree representative has a 10% weighted vote on the PEC. The remaining 90% vote is divided among the unions proportionally as to how the number of employees eligible for health coverage in each bargaining unit compares to the total number of health coverage-eligible employees in all bargaining units. A weighted vote of 70% of the PEC is required to approve the written agreement necessary to implement Section 19 and the local GIC option.

The written agreement to join the GIC must specify the health premium **contribution ratios** (municipality v. subscriber). These contribution ratios may differ by type of plan (PPO, HMO, Indemnity, or Medicare supplemental) but not by type of subscriber (active, retired or survivor). The contribution ratio must be between 50% and 99%. **The agreement must also provide that the percentage contribution by the municipality for at least one Medicare Supplement plan shall be no less than the minimum contribution toward any active plan.** Apart from contribution ratios, **the GIC determines all matters relating to subscribers’ health plans, costs and payments.**

The written agreement also must address the interval for **withdrawal from the GIC** and withdrawal procedures. The law permits withdrawal from the GIC at 3 or 6 year intervals. The written agreement may specify the procedures for resolving an impasse over whether or not to withdraw from the GIC and for determining health coverage and contribution ratios for subscribers for the year following withdrawal from the GIC. Withdrawal from the GIC revokes adoption of Section 19 and any written agreements as of the effective date of withdrawal. By law, notification to withdraw must be provided to the GIC by October 1 preceding the July 1 effective date of withdrawal. **[IMPORTANT NOTE: As a practical matter, the issue of withdrawal from the GIC may be moot. Please see the discussion below on the “Charlie on the MTA” (not a reference to the Massachusetts Teachers Association) problem.]**

Non-union employees have no representation on the PEC. A written agreement between the APA and the PEC is binding on all active and retired subscribers. This written agreement supersedes conflicting provisions of collective bargaining agreements.

### **C. Transfer of Subscribers to the GIC**

Assuming the written agreement to do so has been executed, the next step in the process is to send a signed copy of the agreement and a cover letter from an authorized municipal official to the GIC as notice of intent to join the GIC. **These documents must be received by the GIC on or before the October 1 preceding the next July 1 effective date of GIC coverage.** The GIC has indicated that it needs this long lead time to insure that it knows the pool size prior to releasing proposed rates and plan design features in November for the following July (with actual renewal rates announced in March) and to insure that there is enough time for all the

implementation work required of municipal employers by the GIC. The GIC will accept any community properly seeking to send all its subscribers to the GIC.

If the municipal employer meets the October 1 notice deadline, all of that municipal employer's eligible subscribers must enroll in GIC coverage. For municipal employers that have not previously adopted Section 18 of Chapter 32B, though, the GIC option requires that the municipality notify its retirees 65 years old and older that they must sign up for Medicare Part B if they are eligible for Part A in order to have GIC coverage by the following July 1. The municipal employer must pay any Medicare Part B premium penalties.

Participation in the GIC requires that the municipal employer utilize the State's secure e-mail system and utilize GIC standard forms for all data exchanges. The municipal employer must also collect and provide to the GIC all documents necessary to establish that subscribers and dependents meet eligibility requirements. There will also be an administrative fee of up to 1% of total premiums per year added to the health premiums.

### **III. WHAT FACTORS SHOULD BE WEIGHED IN DECIDING WHETHER TO PURSUE THE GIC OPTION?**

#### **A. Will the GIC Option Save Money?**

Since the prospect of lower health benefit costs for municipalities was the impetus for this new legislation, the first and foremost issue to address is whether the GIC option would, in fact, result in lower premiums for your municipality going forward. As noted at the outset, this issue is not susceptible to a blanket answer and necessitates a detailed, client-specific analysis. To date, we have completed such an analysis for several of our municipal clients. In a number of instances, it became apparent that the GIC option would be more costly to the particular municipal entity. In other instances, whether the municipal entity would save or lose money by going to the GIC depended on what plan choices its employees made once in the GIC. In one instance, it was clear that going to the GIC would save a particular client a good deal of money. As one might expect, though, that client has experienced truly unfavorable claims experience in recent years.

In making this assessment, municipalities should consider as well what it is likely to cost the community in terms of concessions to the PEC to reach the agreement necessary to implement Section 19 and gain entry into the GIC. In return for bargaining away any future voice in plan design decisions, the related cost factors, and available carriers, unions may well expect significant financial concessions such as readjustment in their favor of the premium contribution ratios.

#### **B. Have All Other Options Been Explored?**

In large part, the lower cost increases experienced in recent years by the GIC when compared to the Massachusetts municipal market at large can be attributed to the control the GIC

has over plan design and its judicious exercise of this control. The Commission and the GIC's Executive Director, Dolores Mitchell, have done a good job of moderating the rate of premium inflation by increasing co-pays and deductibles and otherwise addressing inflationary plan design features that plague many municipal health insurance plans. We have long advocated keeping plan designs contemporary towards the same end of reducing inflationary features and moderating premium inflation. We have been very successful in accomplishing these ends in many communities by involving the employees as stakeholders through concerted educational outreach. Looking again at the issue of plan design changes may be a sound alternative to the GIC in your community as well. In addition, MIIA recently announced that it will be offering new products intended to compare favorably to GIC offerings in both plan design and cost.

### C. Other Points to Ponder

- **No Subsidies:** Municipalities entering the GIC cannot subsidize any of the GIC benefits [e.g. no use of Health Reimbursement Arrangements (HRAs) or employer-funded Health Savings Accounts (HSAs)]
- **Complete re-enrollment/documentation required:** The GIC is a stickler for documentation. An entering municipality will be expected to reconcile with the GIC and document to the GIC its eligibility list, including providing birth certificates, guardianship papers, adoption certificates, marriage licenses, separation agreements, Medicare verification letters, etc., as required. This is not a bad thing, but it may be something new (and possibly burdensome) to many municipalities.
- **Uncertainty:** 3 or 6 years are **significant lock-in periods**. Given the GIC's past performance, it may not be much of a gamble for some communities to choose the GIC route by October 1 even though the plan design features and rates for the GIC will not be known until the next March. However, **it is anyone's guess as to what effect adverse selection may have on the GIC over time and on how the GIC may respond with plan design changes and cost increases**. To underscore this concern, it was noted previously that we are estimating that one of our clients would save a substantial amount of money by going to the GIC due to the client's adverse claims experience. While this client would make up a very small percentage of the entire enrolled population of the GIC, this client's claims would represent a higher percentage, as their loss ratio traditionally has exceeded 100%. It would be foolhardy to suggest that this or any other municipality with adverse claims experience will suddenly become "healthy" by joining the GIC.
- **A PARTICULAR CONCERN – The "Charlie on the MTA" Conundrum:** At the risk of dating ourselves, municipalities joining the GIC may face a fate similar to that which befell "Poor Old Charlie" in the famous song by the Kingston Trio – **you may not be able to get off of that train**. As noted above, the law allows withdrawal from the GIC at 3 or 6 year intervals. This presupposes, though, that you will have an alternative place to go. That may not be so. **At present, the GIC does not track claims experience by member community**. Without access to municipality-specific claims experience, one cannot accurately assess how a municipality's claims are

running versus the rates being charged that municipality and its employees by the GIC. Even worse than making it impossible to make an informed decision as to whether or not the GIC is a good deal for a given municipality over time, the lack of specific claims data effectively will render it impossible for a municipality to obtain competitive price quotations (or perhaps any quotations at all) from outside insurance carriers as those carriers also will be unable to assess the risk. Unless the GIC elects to change this practice and develops the means to track claims experience by municipality, we would suggest that the GIC should be regarded as an option of last or near-last resort.

#### **IV. CONCLUSION**

As Dolores Mitchell, Executive Director of the GIC, has stated publicly, the local option to join the GIC is not a panacea. It is another arrow in the quiver of municipal options, along with implementing cost-saving plan design changes on a local level, considering MIIA or other Joint Purchase groups, evaluating self-funding, and others. We will examine it as an option with each of our clients. In exceptional cases, it may emerge as the preferred option. But until such time as the GIC begins reporting claims experience by specific municipality and thereby enables municipalities to assess the GIC's future performance and explore options to the GIC, we must advise exceptional caution in considering this new option.

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#### **OTHER RESOURCES**

[www.mass.gov/gic](http://www.mass.gov/gic)

[www.MMA.org](http://www.MMA.org)

[www.MAPC.org](http://www.MAPC.org)